

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 OPIC-03 CIAE-00 INR-07 NSAE-00
PA-01 PRS-01 USIA-06 OMB-01 TRSE-00 SP-02 CIEP-01
CEA-01 SS-15 FRB-03 /062 W
-----092209Z 112864 /66

R 091725Z FEB 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 0124
INFO USDOC WASHDC
AMCONSUL OPORTO

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E.O. 11652: N/A
TAGS: EINV, BGEN, EFIN, PO
SUBJECT: GOP AUTHORIZES COCA-COLA INVESTMENT IN
PORTUGAL

1. THE GOP AUTHORIZED IN MID-JANUARY A COCA-COLA INVESTMENT
IN PORTUGAL THROUGH A JOINT VENTURE FIRM BEING
ESTABLISHED - SOCIEDADE INDUSTRIAL DE REFRIGERANTES SARL
(INDUSTRIAL SOFT DRINK COMPANY - SIR). ACCORDING TO THE
DECREE SIGNED BY THE SECRETARY OF STATE FOR LIGHT INDUSTRY,
SIR IS AUTHORIZED TO SIGN A CONTRACT WITH COCA-COLA EUROPE
UNDER FOLLOWING CONDITIONS:

- A. CONTRACT CANNOT BE TIED TO PAYMENT OF ROYALTIES FOR
MANUFACTURING LICENSE OR FOR USE OF THE TRADEMARK.
- B. FOREIGN PARTICIPATION IN SIR CANNOT EXCEED 50 PERCENT;
SOCIAL CAPITAL MUST NEVER BE LESS THAN 30 PERCENT OF REAL
FIXED INVESTMENT; 20 PERCENT OF INCREASES IN SOCIAL CAPITAL
MUST BE RESERVED FOR PUBLIC SUBSCRIPTION.
- C. ALL PERMANENT PERSONNEL MUST BE PORTUGUESE.
- D. SIF WILL ASSURE ANNUAL EXPORTS OF NONTRADITIONAL
PORTUGUESE PRODUCTS AT A HIGHER RATE THAN ITS ANNUAL
IMPORTS; ANNUAL REPORTS MUST BE MADE TO GOP.

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- E. THE SOFT DRINK FORMULAE MUST MEET EEC HEALTH
REQUIREMENTS.
- F. ALL ADVERTISING COSTS FOR FIRST TWO YEARS MUST
BE PAID BY COCA COLA EUROPE; THEREAFTER 50 PERCENT OF
EXPENDITURES MAY BE FINANCED DOMESTICALLY.
- G. INVESTMENT IS SUBJECT TO FOREIGN INVESTMENT CODE.

2. FIFTY PERCENT PORTUGUESE SHARE IN SIF WILL BE DIVIDED BETWEEN MENDES ALMEIDA (CONDE DE CARIA) FAMILY WHICH ALREADY OWNS A LARGE SOFT DRINK FIRM, FONSECA WINES (WHICH ALSO HAS PARTNERSHIP WITH HEUBLEIN TO PRODUCE LANCERS) AND OTHERS. TOTAL INVESTMENT IS ESTIMATED AT \$3 MILLION TO BUILD BOTTLING PLANT AND IMPORT MACHINERY. EMPLOYMENT ESTIMATED AT 400. COKE EXPECTED TO BE ON MARKET BY SUMMER 1977, TEMPORARILY BEING BOTTLED IN ANOTHER FIRM NEAR LISBON.

3. COMMENT: COCA-COLA INVESTMENT IS SIGNIFICANT FOR SEVERAL REASONS. PORTUGAL IS ONE OF FEW COUNTRIES WORLDWIDE WHERE COCA-COLA DOES NOT OPERATE. ITS APPEARANCE IN PORTUGAL HAS GENERATED WIDESPREAD INTEREST AND CONTROVERSY, BOTH ON POLITICAL GROUNDS AND FOR COMMERCIAL PURPOSES. THE SOFT DRINK BOTTLERS ASSOCIATION HAS PUBLICLY ATTACKED THE AUTHORIZATION AS A THREAT TO THE CONTINUED EXISTENCE OF MANY OF THE MORE THAN 100 SMALL AND MEDIUM FIRMS CURRENTLY OPERATING IN THE SECTOR. THE APPROVAL ALREADY PRECIPITATED THE SUSPENSION OF ONE PUBLIC OFFICIAL FOR LEAKING THE DECREE TO A LAWYER REPRESENTING SIF.

4. MORE IMPORTANTLY, THIS IS FIRST APPROVAL BY GOP OF NEW FOREIGN INVESTMENT SINCE PASSAGE OF FOREIGN INVESTMENT CODE AND INSTALLATION OF FIRST CONSTITUTIONAL GOVERNMENT. CONDITIONS APPEAR TO BE VERY RESTRICTIVE. THE FOREIGN INVESTMENT CODE DOES NOT CONTAIN PROVISIONS TYING GUARANTEED EXPORTS TO IMPORTS, NOR DOES IT MANDATE USE OF EXTERNAL FUNDS FOR PUBLICITY. THE CODE IS MORE LIMITED OFFICIAL USE

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LENIENT ON THE USE OF FOREIGN PERSONNEL. NEITHER THE CODE NOR PORTUGUESE LAW LIMITS FOREIGN INVESTMENT IN THE SOFT DRINK BOTTLING SECTOR TO 50 PERCENT. (THE BEER SECTOR, SOME FIRMS OF WHICH MAKE SOFT DRINKS, HAS BEEN NATIONALIZED AND THE CODE PROHIBITS FOREIGN INVESTMENT IN THOSE SECTORES NATIONALIZED AT THE TIME THE CODE WAS IMPLEMENTED; HOWEVER, NO FIRMS MAKING SOLELY SOFT DRINKS WERE NATIONALIZED DIRECTLY). FINALLY, THE CODE IMPLICITLY ALLOWS PAYMENT FOR USE OF TRADEMARKS.

5. THE FIRST APPROVAL OF A FOREIGN INVESTMENT HAD BEE ANXIOUSLY AWAITED BY FOREIGN BUSINESS AS AN INDICATOR OF GOP POLICY. HOWEVER, THE COCA-COLA INVESTMENT PROBABLY SHOULD NOT BE TAKEN AS A POLICYMAKING PRECEDENT. THE COMMISSION TO INSTALL THE FOREIGN INVESTMENT INSTITUTE HAD LITTLE TO DO WITH THE AUTHORIZATION AND, IN FACT, THE COMMISSION IS PRESENTLY LIBERALIZING THE CODE. COCA-COLA WILL CONTRIBUTE LITTLE ADDED VALUE, EMPLOYMENT OR EXPORTS TO THE ECONOMY, AND MAY EVEN HARM SEVERAL SMALL AND

MEDIUM FIRMS, GOP PROBABLY FELT ITSELF IN A STRONG
NEGOTIATING POSITION. EMBASSY'S FIRST IMPRESSION IS THAT
U.S. BUSINESS DOES NOT CONSIDER THE COCA-COLA CONTRACT
TO BE A SIGNIFICANT INDICATOR OF GOP INVESTMENT
POLICY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENTS, JOINT VENTURES
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Sent Date: 09-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LISBON01111
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770046-1115
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770259/aaaacaay.tel
Line Count: 122
Litigation Code IDs:
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c6de18c9-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3367199
Secure: OPEN
Status: NATIVE
Subject: GOP AUTHORIZES COCA-COLA INVESTMENT IN PORTUGAL
TAGS: EINV, BGEN, EFIN, PO, COCA COLA
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/c6de18c9-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009